

8 November 2021

Warren Duarte
Iris Capital

Sent via email: warren@iriscapital.com.au

Dear Warren

Re: 'Palms Hotel' 167 Hume Highway Greenacre - VPA Analysis Clarifications

Iris Capital (the Proponent) own the land at 167 Hume Highway, Greenacre (the Site). The Proponent seeks to redevelop the Site into a mixed-use development and is progressing a Planning Proposal with the City of Canterbury Bankstown Council (Council). The Planning Proposal envisages concurrent provision of various items of public benefit including:

- Dedication of 600sqm of land to expand Peter Reserve along with construction/ park embellishment works.

The foregoing item of public benefit was included in a draft Planning Agreement offer to Council. Council have responded in a letter dated 29 October 2021, rejecting the public benefit offer including the following matters:

- How the monetary contribution was calculated; and
- How the expanded Peter Reserve Park (+600sqm) was valued.

BACKGROUND

Atlas Urban Economics (Atlas) provided advice dated 16 September 2021 (**Original Advice**) wherein it:

- Estimated the increase in site value resulting from the proposed scheme at \$2,876,950.
- Identified a contribution of \$1,438,475 that could be made towards public benefit. The amount of \$1,438,475 (approx. 50% the increase in site value) was noted to represent the dollar value of the public benefit requirement for the Site.
- Carried out a value assessment of the social and economic value of the public benefit (resulting from the addition of 600sqm to Peter Reserve) to the community.
- Estimated that the community value of the expanded Peter Reserve Park was \$2,300,000. This was greater than the dollar value of the public benefit requirement of \$1,438,475.

This paper is an explanatory note that demonstrates the basis for the foregoing advice and its consistency with Council's Planning Agreements Policy (2017).

INCREASE IN SITE VALUE

The Original Advice applied dollar rates of \$650/sqm and \$1,150/sqm to the non-residential and residential GFA respectively to estimate the increase in site value as a result of the proposed scheme.

A notional LEP scheme was developed based on a land use assumption of 90%: 10% (residential: non-residential GFA). This reflects a likely 'market response' were the Site be developed in a compliant scheme. There is no planning requirement that stipulates or guides what the residential: non-residential split would be. The notional LEP scheme represented the 'starting point' from which an increase in site value was estimated.

The Planning Proposal comprises a higher proportion of non-residential GFA (23%) due to Council's requirement of a minimum non-residential component to the development.

Table 1 indicates the notional LEP scheme and Planning Proposal with the respective GFA and site values. The equivalent FSR and respective residential: non-residential GFA splits are also indicated in **Table 1**.

Table 1: Site Value Calculations, LEP Scheme and Proposed Scheme

Land Use	Assessed Rate	Notional LEP Scheme		Planning Proposal		Difference	
		GFA (sqm)	Site Value	GFA (sqm)	Site Value	GFA (sqm)	Site Value
Non-Residential	\$650/sqm	1,174	\$763,100	3,523	\$2,289,950	+2,349	\$1,526,850
Residential	\$1,150/sqm	10,570	\$12,155,500	11,744	\$13,505,600	+1,174	\$1,350,100
Total		11,744	\$12,918,600	15,267	\$15,795,550	+3,523	\$2,876,950
Equivalent FSR		1.0:1		1.3:1			
Residential: Non-residential		90%: 10%		77%: 23%			

Source: Atlas

Table 2 contains an analysis of mixed use developments approved in the B6 Enterprise Corridor zone in the council area.

Table 2: Review of Development Activity in B6 Zones

Address (DA Reference)	Site Area (LEP FSR, GFA)	Description	Analysis of Approved GFA F(SR) (Non-resi GFA: Resi GFA)
24 Hillcrest Ave 112 Northcote Rd 225-241A Hume Hwy Greenacre (DA 3/2015, JRPP 2015SYW018)	18,756sqm (FSR 1:1, 18,756sqm GFA)	Retail, commercial, residential development for 177 residential units and 2,028sqm GFA. Retail/ commercial floorspace of 2,028sqm GFA, to comprise offices, recreational facility, convenience store, restaurant, café, pharmacy, medical centre.	<ul style="list-style-type: none"> 18,841sqm GFA (FSR 1:1) 16,813sqm residential GFA, 2,028sqm non-residential GFA 89% residential: 11% non-residential GFA
324 Hume Hwy Bankstown (DA 24/2017)	1,615sqm (FSR 2:1, 3,210sqm GFA)	Mixed use development for 31 residential units and ground floor commercial unit. There is no available information on the commercial GFA. For the purposes of the analysis 200sqm GFA is assumed, resulting in an average of 97sqm GFA per residential unit.	<ul style="list-style-type: none"> 3,210sqm GFA (FSR 2:1) 3,010sqm residential GFA, 200sqm non-residential GFA 94% residential: 6% non-residential GFA
326 Hume Highway Bankstown (DA 988/2015, JRPP 2015SYW174)	5,659sqm (FSR 2:1, 11,320sqm GFA)	Mixed use development for 127 residential units, 480sqm commercial space (2 levels) fronting Hume Highway.	<ul style="list-style-type: none"> 11,320sqm GFA (FSR 2:1) 10,840sqm residential GFA, 480sqm non-residential GFA 96% residential: 4% non-residential GFA
348 Hume Highway Bankstown (DA 1036/2014, JRPP 2014SYW152)	9,563sqm (FSR 1.75:1, 16,735sqm GFA)	2 residential flat buildings, 1 mixed use development including 1,560sqm showroom space and 245 residential units. Proposal includes FSR 0.5:1 bonus under ARH SEPP.	<ul style="list-style-type: none"> 21,421sqm GFA (FSR 2.2:1) 19,861sqm residential GFA, 1,560sqm non-residential GFA 93% residential: 7% non-residential GFA
350 Hume Highway Bankstown (DA 965/2014, JRPP 2014SYW141)	11,722sqm (FSR 1.75:1, 20,513sqm GFA)	Mixed use development for 290 residential units, 2,580sqm commercial space. Proposal includes FSR 0.5:1 bonus under ARH SEPP.	<ul style="list-style-type: none"> 26,014sqm GFA (FSR 2.2:1) 23,434sqm residential GFA, 2,580sqm non-residential GFA 90% residential: 10% non-residential GFA

Source: Cordell Connect, Council DA Tracker

The following observations can be made:

- The proportion of non-residential GFA ranges from 4% to 11% of overall approved GFA.
- Larger sites (>10,000sqm) accommodate non-residential GFA in the upper end of the range, around 10%. This is likely due to opportunity for a larger quantum of commercial/ retail uses to cluster on a large site.

The review of development activity (DAs approved) and in particular of mixed use developments in the B6 Enterprise Corridor zone affirms that the assumed land use split of 90%: 10% is reasonable, which reflects a likely market response were the Site to be developed in a compliant scheme.

The increase in site value of \$2,876,950 (based on land use split assumptions in the Notional LEP scheme) estimated in the Original Advice is therefore supportable and reasonable.

MATERIAL PUBLIC BENEFIT

Council's Planning Agreements Policy (2017) (the PA Policy) sets out the framework for contributions. Clause 2.2 states that the *Environmental Planning and Assessment Act 1979* allows for the following contributions to be made (*our emphasis added*):

- Cash payments,
- Dedication of land free of cost,
- **Material public benefit (such as but not limited to works),**
- Affordable housing (cash payment, land or dedication of dwellings), or
- Any combination of the above.

Clause 2.3 of the PA Policy lists the types of public benefits (*our emphasis added*) that Council may seek, that:

- Compensate for the loss of, damage to, a public amenity, service, resource or asset caused by the development through its replacement, substitution, repair or regeneration,
- Meet the demands created by the development for new public infrastructure, amenities and services,
- **Address a particular deficiency or deficiencies in the existing provision of public facilities in the Council's area,**
- Achieve recurrent funding in respect of public facilities,
- Prescribe inclusions in the development that meet specific planning objectives of the Council,
- Monitor the implementation of development,
- **Secure planning benefits for the wider community,**
- Provide affordable housing.

Clause 2.5 of the PA Policy provides for how the public benefit of contributions is to be valued.

Where there is provision of an item of **Material Public Benefit**, Council and the developer will negotiate the manner in which the benefit is to be valued for the purposes of the planning agreement.

Given that the PA Policy provides that Council and the developer are to negotiate the manner in which a material public benefit is to be valued, the "valuation of material public benefit" is the critical issue for the remainder of this explanatory note.

VALUING GREEN INFRASTRUCTURE

The benefits of green infrastructure are well established. The Original Advice observed that public open space provides benefits to surrounding communities, noting that:

- The presence of good parks, squares, gardens and other public spaces make areas more attractive to live and invest.
- Access to good-quality, well-maintained public spaces can help to improve physical and mental health by encouraging residents and visitors to walk more, to play sport, or simply to enjoy a green and natural environment.
- Public open spaces are available to all, regardless of ethnic origin, age or gender. When properly designed and cared for, they bring communities together, provide meeting places and foster social ties and a sense of place.

The next section provides an overview of how a Material Public Benefit such as green spaces/ green infrastructure is valued in Australia. These valuation methods are used to present information in a Cost-Benefit analysis (CBA) to help government understand the impacts of policies and projects, including economic, social and environmental impacts.

The Value of Green Spaces in NSW

The Department of Planning, Industry and Environment (DPIE) and Department of Premier and Cabinet (DPC) are working on delivering the Premier's Priorities, including:

- Provide greater access to quality, green, open and public spaces closer to homes (by increasing the proportion of homes in urban areas within 10 minutes' walk of green and public spaces by 10% by 2023).
- Increasing the tree canopy by planting one million trees in Greater Sydney by 2022.

DPIE's program on Greener Public Spaces can be found here <https://www.planning.nsw.gov.au/Policy-and-Legislation/Open-space-and-parklands>.

The importance of valuing green infrastructure and public spaces is acknowledged by DPIE, along with the difficulty of accurately quantifying a monetary value. The importance of valuing the benefits of green infrastructure is discussed here <https://www.dpie.nsw.gov.au/premiers-priorities/valuing-green-infrastructure-and-public-spaces>.

DPIE acknowledges that green infrastructure and public spaces are valuable as they provide important benefits such as:

- Improved physical and mental health.
- Increased urban amenity.
- Boosted labour productivity.
- Enhanced property values.
- Expanded business incomes by increasing street activity.

There are numerous studies that show greater access to open space has a flow-on effect on people's physical and mental health, reducing the health cost of inactivity. These studies quantify the value that people place on green infrastructure and public spaces.

DPIE is developing a sector-specific framework for valuing green infrastructure and public spaces. The framework will be a public document that can be used to help prepare economic evaluations, including cost-benefit analysis, to ensure there is a consistent approach to valuing these important assets.

When approved, the framework will be a companion to the NSW Government's Guide to Cost-Benefit Analysis (CBA). It will include guidance and endorsed valuation methods to monetise the costs and benefits of green infrastructure and public spaces and will include repeatable dollar values of some benefits.

Our Original Advice carried out a similar review of studies/ valuation methods that monetised the benefits of green spaces.

Valuation Policy and Practice

The valuation of green infrastructure is not new. It is established practice to value/ monetise the benefits of parks and green spaces as parks contribute to clean air, climate regulation and directly contribute to community wellbeing by providing opportunity for improving physical, mental, social and spiritual health.

Governments globally recognise the value of green infrastructure. In this section we focus on the approach and studies undertaken in Australia.

- **Valuing Victoria's Parks (VIC Government)**

The Victorian Government undertook a comprehensive study of valuing the benefits of Victoria's parks in 2017. The benefits of parks and their ecosystems were quantified. The assessment quantified the value of contribution by parks, including to tourism, capture of water runoff, honey production, etc.

The study acknowledged a large body of scientific research demonstrating that healthy nature and open space can generate a range of health and wellbeing benefits for individuals and communities. With an increasing incidence of 'lifestyle' diseases (e.g. diabetes, cardio-vascular disease, depression and anxiety), parks provide opportunities for outdoor recreation, social health benefits and neighbourhood amenity.

The study observed that healthy parks provide significant amenity benefits to surrounding residents. The 'amenity value' is used as a proxy for the value of improving people's welfare or wellbeing. A conservative amenity value of between \$21 million and \$28 million per annum was estimated for Melbourne's metropolitan parks alone, being equivalent to between \$1,750 and \$2,333 per annum per dwelling (\$2017). This is equivalent to 5%-7% increase in home values adjacent to parks.

- **Public Greenspace and Life Satisfaction (Griffith University)**

Researchers Ambrey and Flemming undertook an extensive study in 2012 to uncover resident willingness-to-pay for increased public greenspace. They found that increased greenspace enhances local residents' welfare, and that, on average, a resident had an implicit willingness-to-pay of approx. \$1,168 (\$2012) per annum for 1% (143sqm) in local public greenspace.

- **How Much do We Value Green Spaces? (Australian Government)**

The Cooperative Research Centre for Water Sensitive Cities stated that unless a dollar value is assigned to the benefits of green spaces, they could be overlooked by urban planning and water policy, possibly resulting in under-investment.

The study carried out hedonic price modelling (which used variations in property prices) to value the benefits associated with green spaces. The difference in property prices (close to green spaces) indicates the willingness-to-pay for certain characteristics of a property (in this case, access to urban greenery). It found that people were willing to pay more to live in greener suburbs (areas where there is more green infrastructure).

The study estimated that Australian households are willing to pay a one-off payment of between 9% and 16% more for a house that has access to public open space.

- **Do Low-income Neighbourhoods have the Least Green Space?**

A cross-sectional study of Australia's most populous cities in 2014 found that green space was substantially lower in areas with a higher percentage of low income residents. The study affirmed the need for green space planning to redress the socio-economic inequity of access to an important public health resource.

The next section summarises the valuation of the expanded Peter Reserve that was undertaken in the Original Advice and compares the community value against the findings of the above studies.

VALUING THE MATERIAL PUBLIC BENEFIT OF A LARGER PARK

Additional public open space brings value to the surrounding community, supporting active and passive recreational opportunities as well as supporting the visual amenity and natural environment of the surrounding area.

The estimation of the community value an expanded Peter Reserve will provide was carried out using two approaches:

- A discounted cashflow (DCF) approach to analyse the community benefits following the park expansion. The analysis considered the effect of benefits over a period of 30 years beginning YE June 2022 at a range of nominal discount rates (4% and 7%). The community value is the Net Present Value of future community benefits from the additional parkland.
- A one-off value increase based on the potential increase in surrounding house prices (hedonic modelling approach). The potential change in house prices is used as a proxy for the value of the amenity the expanded parkland will provide.

The expansion of Peter Reserve was estimated to result in community/ amenity value ranging between \$1.2 million and \$3.6 million. At a midpoint of scenario and discount rates, \$2.3 million value of community benefits is the result. Estimated benefits under the low and moderate scenario assumptions are presented in **Table 3**.

Table 3: Value of Community Benefits (30 Year Net Present Value)

Scenario	Discounted @4%	Discounted @7%	Midpoint (discount rate)	One-off Value Increase
Contingent Valuation Method (Household Willingness-to-pay, Annual)				
Low	\$1.8 million	\$1.2 million	\$1.5 million	
Moderate	\$3.6 million	\$2.5 million	\$3.0 million	
Midpoint (scenario)	\$2.7 million	\$1.8 million	\$2.3 million	
Hedonic Pricing Approach (Household Willingness-to-pay, One-off)				
Low				\$1.5 million
Moderate				\$3.1 million
Midpoint (scenario)				\$2.3 million

Source: Atlas

There are approx. 56 households (dwellings) within 200m-300m of the expanded Peter Reserve (less than 5 minutes' walk). For a park of 1,200sqm (after expansion), the expanded park is expected to play a local community role. In contrast, the larger parks of Gosling Park and Lockwood Park would draw residents from further away than 5 minutes' walk.

The community value of \$2.3 million is an average of \$41,071 per dwelling, equivalent to a 3.6% increase on the median Greenacre house price of \$1.15 million (Sept 2021). Compared to the above studies, 3.6% is a lower resident willingness-to-pay for access to greenspace. This lower amount is not unreasonable, given that Peter Reserve already exists.

PLANNING AGREEMENTS POLICY

This section considers Council's PA Policy with respect to public benefit and in the context of DPIE's Planning Agreements Practice Note (February 2021) (the Practice Note).

DPIE's Practice Note defines "public benefit" as a benefit enjoyed by the public as a consequence of a development contribution.

Council's PA Policy uses the terms 'public benefit' and 'material public benefit' but does not define either term. **Material Public Benefit** is assumed to carry a similar meaning to **Public Benefit**, as defined in the Practice Note with the term "material" assumed to denote the significance/ importance of the public benefit.

Clause 2.5 of the PA Policy has three limbs:

- It requires that where land is dedicated, 'market value' is the basis for which value is determined for purposes of the planning agreement.
- Where works are to be carried out, the cost of design and construction is the basis for which value is determined for the purposes of the planning agreement.
- Where there is provision of a Material Public Benefit, Council and the developer are to negotiate how the benefit is to be valued for the purposes of the planning agreement.

In Council's response dated 29 October 2021 the method of valuation was taken to be 'market value' for the land dedicated. This would be an appropriate approach if land to be dedicated did not result in a Material Public Benefit. If land was dedicated for a public benefit (not of material significance) for example, the purposes of 'squaring-off' or improving alignment of a kerb/ footpath, 'market value' would be an appropriate basis for valuation.

The dedication of land and construction/ embellishment of an expanded Peter Reserve can be considered not just of public benefit, but of *Material* Public Benefit. The materiality of green spaces (particularly in the context of doubling the size of an existing park) is well founded and is grounded in extensive researched evidence (some of which were detailed above).

In the circumstances and given the Material Public Benefit associated with the expanded park, it would be incorrect to rely on the first limb of clause 2.5 (market value of land) or indeed the second limb (cost of works). Rather, the PA Policy expressly states that in the case where a Material Public Benefit is provided, it is for Council and the developer to negotiate on how the benefit is to be valued for the planning agreement.

The Practice Note affirms the approach of negotiation between the parties, noting that the negotiation of planning agreements involves the use of discretion on both sides, allowing planning authorities and developers to consider different values and varying concepts of the public and private interests.

Given that the PA Policy provides that Council and the developer are to negotiate the manner in which a Material Public Benefit is to be valued, it is therefore reasonable to expect that the benefits associated with the public benefit item in question (the 600sqm park expansion) would be considered in the valuation of the Material Public Benefit.

Providing Benefits to the Wider Community

One of the objectives of planning agreements is to secure off-site benefits for the community so that development delivers a net community benefit. Planning agreements can be used to secure the provision of broader benefits for the wider community.

Broader benefits may take the form of additional or better-quality public facilities than is required for a particular development. Alternatively, benefits may involve the provision of public facilities that, although not strictly required to make the development acceptable in planning terms, are not wholly unrelated to the development. In this case, the provision of broader benefits (in the form of an expanded park) involves provision of public facilities not strictly required to make the development acceptable in planning terms.

The Practice Note states broader benefits provided through planning agreements involve an agreement between a developer and a planning authority to allow the wider community to share in benefits resulting from the development. The benefit may be provided in conjunction with planning obligations or other measures that address the impacts of the development on surrounding land or the wider community.

The Proposed Scheme includes dedication of land that will expand Peter Reserve by 600sqm on the eastern boundary of the Site. Peter Reserve is a pocket park currently measuring about 600sqm. After the land dedication, Peter Reserve will be doubled in size, thereby altering its role from a pocket park to a local park. A park of this size will likely benefit local residents within 200m-300m (<5 minutes' walk), bringing with it community value to its surrounding resident catchment.

Our Original Advice's estimate of community value/ amenity value of the expanded park is consistent with the principles in:

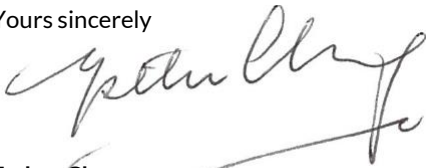
- Council's PA Policy that Council and the developer are to negotiate how a Material Public Benefit is to be valued.
- DPIE's Practice Note that recognises the need to allow the planning authority and developer to consider different values in the context of concepts of public and private interests.

The \$2.3 million estimate of community value in the Original Advice is consistent with valuation practice and policy of valuing green infrastructure. The value of \$2.3 million is equivalent to approx. 3.6% increase to property values in the surrounding 200m-300m catchment (of approx. 56 dwellings).

Though the 3.6% increase in property values is lower than the range of resident willingness-to-pay for access to greater public green spaces found in the studies (5%-7% and 9%-16%). This is logical as the public benefit in this case is not a new park but an expanded park (doubling in size from 600sqm to 1,200sqm in area).

We trust this provides clarifications to Council's queries.

Yours sincerely



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